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February 24, 2005

Ms. Beth A. O'Donnell, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

RECEIVED

FEB 24 2005

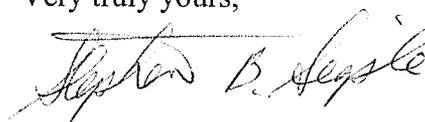
PUBLIC SERVICE
COMMISSION

Re: **PSC Case No. 2004-00462**

Dear Ms. O'Donnell,

Enclosed for filing with the Commission are the original and nine copies of Columbia Gas of Kentucky's Supplemental Response to Question Number 3 of the Commission Staff's Initial Data Requests in Case No. 2004-000462. Please call me at (614) 460-4648 should you have any questions about this matter.

Very truly yours,



Stephen B. Seiple
Lead Counsel

Enclosures

cc: Richard S. Taylor
Parties of Record

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FEB 24 2005

**PUBLIC SERVICE
COMMISSION**

Public Service Commission Staff Data Request Set 1
Question No. 3
Supplemental Response, Revised Feb. 24, 2005
Columbia Gas of Kentucky Respondent: Judy Cooper

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2004-00462
DATA REQUESTED BY THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 17, 2004
SUPPLEMENTAL RESPONSE DATED FEBRUARY 24, 2005**

Question No. 3

Refer to page 5 of the application, specifically the reference to \$13.5 million in savings by CHOICE customers since the inception of the program.

- a. Provide the calculation of the \$13.5 million in savings.
- b. Beginning with 2000, provide a breakdown of the \$13.5 million in savings, by calendar year, between residential and commercial customers. Include all supporting calculations and assumptions.
- c. Columbia states that it has met with other stakeholders to review the proposed CHOICE Program. For each party identified on page 5:
 - (1) Provide the dates Columbia met with the party.
 - (2) Indicate whether the meetings were only presentations by Columbia or if the party was permitted to offer suggestions or changes to Columbia's proposal.
 - (3) If the party offered suggestions or changes to Columbia's proposal, describe the suggestions or changes and how Columbia responded to the suggestions or changes.

Response of Columbia Gas of Kentucky:

- a. Please see attached savings calculation, Attachment PSC 1-3(1).

- b. Residential and Commercial volumes are shown on Attachment PSC 1-3(1). Commercial volumes include some small industrial customers that also qualify for the CHOICE program. Columbia does not maintain a breakdown between residential and commercial customers of the adjustment billed to Choice, therefore a calculation of the breakdown of the savings between residential and commercial customers cannot be determined. The total savings, by calendar year, are shown on Attachment PSC 1-3(1).
- c. Stemming from its August 2003 request to extend the current CHOICE pilot program to March 31, 2005, Columbia committed to discuss the issues associated with the future of the CHOICE program with all the parties. Discussions with the parties concerning the future of the CHOICE program have been ongoing since that time. Columbia has not tracked dates of all of these conversations with individual parties.

Initially, Columbia contacted the parties to determine if any party objected outright to a possible continuation of the Choice program with revisions. No party expressed an objection. In developing the framework of the new program, Columbia has had more frequent and detailed discussion with the participating marketers concerning the technical operational elements of Choice than with the other parties individually.

The suggestions and ideas garnered concerning the future of the CHOICE program, incentive mechanisms and a commodity hedging plan culminated in a meeting of the parties held on October 6, 2004 at which Columbia outlined ideas

and sought further suggestions and questions of the parties. A copy of the Agenda for that meeting is attached as Attachment PSC 1-3(2). Attending were representatives of IGS, MX, LFUCG and CAC. The Attorney General was unable to attend at the last minute due to a business conflict. Columbia subsequently met with the Office of the Attorney General on October 26, 2004.

Columbia's filing is reflective of the comments, concerns and suggestions of the parties expressed since August 2003. Though many elements of the proposal that have developed since August 2003 are not specifically attributable to any individual party, changes to the framework made in response to discussions of Attachment PSC 1-3(2) were specific to Columbia's assignment/recall of capacity, the marketer fee, the annual cash-out mechanism and transition issues from the current program to the proposed program. Also, as discussed in the response to PSC data request number 4, the March 31, 2007, report date was included in the Application as a direct result of discussions held during the October 6, 2004 meeting. Columbia's attention to these suggestions resulted in a postponement of the filing from October 30, 2004 (Columbia's original planned filing date) to November 30, 2004 (the deadline established by the Commission). Columbia remains committed to continue discussion about all issues during the pendency of the Application.

SUPPLEMENTAL RESPONSE FOR SUBPART (C)

On January 14, 2005, Columbia engaged in a discussion with IGS and MX regarding issues on which each party had requested further discussion and/or clarification. The discussion topics identified by the marketers were questions

about storage gas, marketer rate codes or billing rates, credit requirements, balancing service, hedging reports, OSCRA billing, customer education/Choice marketing and pilot term.

As a result of this discussion, Columbia proposes the following revisions/clarifications:

1. **ATTACHMENT A -PROGRAM DESCRIPTION Page 13** - The existing established marketer rate codes or billing rates are grandfathered. Each marketer may establish up to five new billing rates at no charge. The number of allowed changes to billing rates in any calendar year should be increased to 24 rather than twelve as originally stated. A substitute page 13 to the original Program Description will be filed as part of a Supplement to the Application.
2. **ATTACHMENT B – PROPOSED TARIFFS Sheets 7a and 32 –**
The OSCRA factor will be applied to the demand component of Columbia’s Gas Cost Adjustment and therefore will be credited to Choice customers as a credit within the charge to marketers for Balancing Services. This will enable a more accurate comparison for customers between Columbia’s rate and the offers of marketers. The revision will allow the Actual Gas Cost Adjustment specified on Sheets 32 and 7a to remain in effect for the commodity adjustments with the addition of the Gas Cost Incentive Adjustment. The revised tariff sheets will be filed as part of a Supplement to the Application.

3. **ATTACHMENT E – BALANCING CALCULATION** – The Balancing Calculation as originally filed was calculated based on expected annual demand contracts and charges. As stated on page 7 of the application in this case, the balancing service fee will be priced equal to the difference between the cost of assigned capacity and the total demand charge to GCA customers. On January 28, 2005, Columbia filed its quarterly Gas Cost Adjustment to be effective March through May 2005. A Substitute Attachment E will be filed as part of a Supplement to the Application, and will update the cost of assigned capacity and the demand charge to GCA customers to reflect Columbia’s most recent GCA revisions.

As stated previously, based on the discussion of the OSCRA billing, Columbia proposes to apply the OSCRA to the demand component of its GCA. Therefore, the OSCRA would be included in the amount shown on Line 14 of Attachment E. Columbia anticipates that the first OSCRA would be calculated in its September GCA filing.

Columbia Gas of Kentucky
CHOICE Savings Calculation

Month	Residential CHOICE	Commercial CHOICE	Volumes	Total CHOICE	Marketer Revenue	Adjustments	Total CHOICE billings	CKY rate	Calculated Revenue	Savings
	Mcf	Mcf		Mcf	\$	(billed to Choice)	\$	(total GCA)	(total volume * CKY rate)	(Calculated Revenue minus Total CHOICE billings)
Nov. 2000	1,667.2	4,298.2	227,310.1	5,965.4	38,022.94	0	38,022.94	6.8382	40,792.60	2,769.66
Dec.	198,205.7	215,032.9		413,238.6	2,705,474.55	0	2,705,474.55	7.6706	3,169,788.01	464,313.46
Calendar Year 2000 Savings										
Jan. 2001	247,788.6		227,310.1	475,114.0	3,245,916.60	0	3,245,916.60	7.6706	3,644,409.45	398,492.85
Feb.	189,088.9		198,776.1	387,879.5	2,710,917.37	0	2,710,917.37	7.6706	2,975,268.49	264,351.12
Mar.	310,129.9		257,656.6	567,791.9	4,246,474.82	0	4,246,474.82	8.8982	5,052,325.88	805,851.06
Apr.	301,982.1		193,422.3	495,404.4	3,894,758.57	0	3,894,758.57	8.3519	4,137,568.01	242,809.44
May	113,569.1		96,206.8	209,775.9	1,599,681.34	0	1,599,681.34	8.9402	1,875,438.50	275,757.16
June	76,063.0		74,484.3	150,547.3	1,207,524.51	0	1,207,524.51	8.9298	1,344,446.58	136,922.07
July	56,368.2		59,102.0	115,470.2	874,152.88	0	874,152.88	7.8343	904,628.19	30,475.31
Aug.	54,251.2		67,002.3	121,253.5	832,244.50	0.00	832,244.50	7.1374	865,440.44	33,195.94
Sept.	45,601.8		53,740.3	99,342.1	586,251.53	126,527.99	712,779.52	7.4132	736,442.86	23,663.34
Oct.	113,631.1		90,923.2	204,554.3	1,249,159.76	224,577.89	1,473,737.65	7.4132	1,516,401.94	42,664.29
Nov.	252,852.3		146,104.1	398,956.4	2,427,201.24	435,870.83	2,863,072.07	7.4132	2,957,543.56	94,471.51
Dec.	389,910.4		247,323.8	637,234.2	3,662,252.26	514,234.48	4,176,486.74	6.1395	3,912,299.37	264,187.37
Calendar Year 2001 Savings										
Jan. 2002	829,355.8		485,483.8	1,314,839.6	7,533,948.28	1,082,031.82	8,615,980.10	6.1395	8,072,457.72	543,522.38
Feb.	632,619.6		431,302.8	1,063,922.4	6,074,180.00	820,390.38	6,894,570.38	6.1395	6,531,951.57	362,618.81
Mar.	627,388.7		384,428.3	1,011,817.0	5,664,969.01	626,421.25	6,291,390.26	5.4433	5,507,623.48	783,766.78
Apr.	404,275.0		289,386.0	693,661.0	3,822,182.10	296,084.16	4,118,266.26	5.4433	3,775,804.92	342,461.34
May	175,920.6		138,413.9	314,334.5	1,729,484.28	123,042.31	1,852,526.59	5.4433	1,711,016.98	141,509.61
June	116,175.6		94,561.2	210,736.8	1,156,988.04	66,683.07	1,223,671.11	6.0353	1,271,859.33	48,178.70
July	57,716.3		71,250.5	128,966.8	707,446.96	38,432.65	745,879.61	6.0353	778,353.72	32,473.72
Aug.	58,564.4		61,809.3	120,373.7	659,970.34	39,137.21	699,107.55	6.0353	726,491.39	27,383.84
Sept.	52,505.5		66,042.4	118,547.9	638,450.21	4,542.17	642,992.38	4.7816	566,848.64	76,143.74
Oct.	87,408.1		83,840.3	171,248.4	932,127.16	13,432.49	945,559.65	4.7816	818,841.35	126,718.30
Nov.	300,804.1		185,684.7	486,488.8	2,659,964.05	26,411.57	2,686,375.62	4.7816	2,326,194.85	360,180.77
Dec.	637,453.4		387,693.8	1,025,147.2	5,811,897.09	13,532.95	5,825,430.04	5.7080	5,851,426.06	25,996.02
Calendar Year 2002 Savings										
Jan. 2003	776,295.5		486,429.4	1,262,724.6	7,410,303.90	24,477.45	7,434,781.35	5.7080	7,207,632.02	227,149.33
Feb.	834,103.6		552,713.9	1,386,817.5	8,343,783.91	21,070.54	8,364,854.45	5.7080	7,915,954.29	448,900.16
Mar.	642,593.0		416,361.3	1,058,954.3	6,775,676.42	22,662.04	6,798,338.46	7.5695	8,015,754.57	1,217,416.11
Apr.	291,331.1		215,477.2	506,808.3	3,418,065.29	13,048.82	3,431,114.11	9.5518	4,840,931.52	1,409,817.41
May	142,699.7		123,021.5	265,721.2	1,860,707.93	5,439.80	1,866,147.73	9.5518	2,538,115.76	671,968.03
June	88,699.9		89,404.9	178,104.8	1,201,006.07	10,190.94	1,206,197.01	8.1067	1,443,842.18	237,645.17
July	61,148.1		74,421.6	135,570.7	920,432.80	10,451.04	930,883.84	8.1067	1,099,030.99	168,147.15
Aug.	53,361.8		69,431.3	122,793.1	825,617.91	6,545.45	832,163.36	8.1067	995,446.62	163,283.46
Sept.	54,159.0		73,570.1	127,729.1	847,379.71	39,618.85	886,998.56	9.7509	1,245,473.68	358,475.12
Oct.	111,486.6		114,140.3	225,626.9	1,586,946.67	79,938.16	1,666,884.83	9.7509	2,200,065.34	533,179.51
Nov.	208,136.2		148,754.9	356,891.1	2,715,969.91	146,213.66	2,862,183.57	9.7509	3,480,009.43	617,825.86
Dec.	505,702.8		339,579.7	845,282.5	6,730,966.36	328,261.83	7,059,228.19	9.8553	8,330,512.62	1,271,284.43
Calendar Year 2003 Savings										
Jan. 2004	727,841.9		553,306.4	1,281,148.3	10,557,811.44	421,197.74	10,979,009.18	9.8553	12,626,100.84	1,647,091.66
Feb.	785,784.7		531,002.2	1,316,786.9	10,736,348.36	429,288.52	11,165,636.88	9.8553	12,977,329.94	1,811,693.06
Mar.	528,167.1		387,361.2	915,528.3	7,533,219.64	248,804.37	7,782,024.01	9.9407	9,100,992.17	1,318,968.16
Apr.	354,181.2		275,833.5	630,014.7	5,260,238.83	154,115.56	5,414,354.39	9.9407	6,262,787.13	848,432.74
May	148,848.1		156,725.2	305,573.3	2,447,467.17	75,854.97	2,523,322.14	9.9407	3,037,612.50	514,290.36
June	62,490.5		108,511.2	171,001.7	421,588.32	32,736.13	454,324.45	9.4120	1,609,468.00	1,155,143.55
July	52,585.5		72,423.0	125,008.5	1,028,353.78	15,924.38	1,044,278.16	9.4120	1,176,580.00	132,301.84
Aug.	48,020.7		68,122.4	116,143.1	957,581.38	16,201.48	973,782.86	9.4120	1,093,138.86	119,356.00
Sept.	48,780.8		66,520.0	115,300.8	920,159.07	694.84	920,853.91	8.2155	947,253.72	26,399.81
Oct.	76,460.1		91,498.6	167,958.7	1,358,051.37	1,314.22	1,359,365.59	8.2155	1,379,864.70	7,594,176.29
Calendar Year 2004 Savings										
Total	12,934,165.5	9,625,899.8	22,560,091.0	22,560,091.0	150,529,316.63	6,550,405.01	157,079,721.64		170,595,561.08	13,515,839.44

NEW COLUMBIA GAS OF KENTUCKY CHOICE PROGRAM

October 6, 2004

AGENDA

Welcome

Introductions

Historical Recap

Future Plans

- Filing October 2004
- Effective April 1, 2005
- Four year pilot

Framework of the New Program

Pipeline Capacity Assignment

- The volume assigned will be based upon the customer group's forecasted annual consumption, divided by the days in the year.
- Each day, the Choice marketer will be required to schedule supply to fill this assigned capacity (Columbia may require marketers to alter scheduled volumes in the event of extraordinary Balancing Service requirements).
- Firm transportation capacity, involving those pipeline rate schedules listed below, will be assigned to the marketer on a mandatory basis.
 - Columbia Gas Transmission (TCO) FTS: At levels lower than historic
 - Tennessee FT-A: Not previously assigned
 - Columbia Gulf FTS-1: At levels lower than historic
 - Central Kentucky Transmission: Upon approval of application to FERC
- Capacity will be assigned at the same rates paid to the pipelines by Columbia.
 - TCO FTS: Pipeline recourse (maximum) rate
 - Tennessee FT-A: Discounted rate
 - Columbia Gulf FTS-1: Pipeline recourse (maximum) rate
 - Central Kentucky Transmission: Pipeline recourse (max) rate
- When capacity is assigned at a discounted rate (i.e.: Tennessee FT-A), the Choice marketer will need to match any competing bid so that the marketer can obtain the assigned capacity.
- Columbia will recall capacity when the marketer loses customers and will allow for rebalancing of capacity delivery points for shifts in customer participation by location.

Balancing Service

- The Balancing Service provided by Columbia will serve daily and monthly differences between actual consumption by the customer group and the scheduled deliveries.
- Columbia will use its storage related capacity (FSS & SST) on TCO to provide these Balancing Services.

- All Choice customers will pay a rolled in, all-inclusive Balancing Service fee priced equal to the difference between the cost of assigned capacity and the total demand charge to GCR customers.
- At the end of each June, a cash-out mechanism will be used to resolve the accumulated imbalance between consumption and deliveries.

Marketer Fee

- The marketer will pay a fee for each Mcf consumed by their Choice customers in the month based on the total number of customers participating in the program each month. The marketer contribution charge will be tiered to provide an incentive for Columbia to promote the Choice program.
 - Up to 50,000 participating customers, marketer contribution = \$.10/Mcf
 - 50,000-65,000 participating customers, marketer contribution = \$.125/Mcf
 - Over 65,000 participating customers, marketer contribution = \$.15/Mcf

Incentive Program

- As part of its application, Columbia will also request approval of a new incentive mechanism, dealing with off-system sales, capacity release revenue, and a program to compare the commodity cost of Columbia's purchases with a market benchmark.
- GCA and Choice customers will be treated equally in the sharing of margins.

Hedging

- As part of its application, Columbia will also request approval of a plan for hedging gas prices in the GCA.

Questions

Closing